

NORWOOD

Health Care Access Coalition

Submission to the Department of Public Health Concerning the Cerberus Capital Management Acquisition of the Caritas Hospitals

July 30, 2010

The Health Care Access Coalition is a group of safety net hospital providers who seek the consideration of the Department of Public Health, Public Health Council and Attorney General's Office surrounding common concerns that the Coalition and the residents of the communities they serve, have about the impact of the Cerberus Capital Management's acquisition of the Caritas hospitals on health care access and affordability in the Greater Lawrence, Brockton and Fall River communities. Members of the Health Care Access Coalition include Lawrence General Hospital, Signature Healthcare-Brockton Hospital, and Southcoast Hospitals Group.

The communities of Lawrence, Brockton and Fall River are all served by both an independent, not-for-profit disproportionate share hospital (DSH) as well as a Caritas Hospital. In the City of Lawrence, the Lawrence General Hospital is a DSH hospital with a public payer mix of 70% that shares a marketplace with Caritas Holy Family Hospital, a non-DSH hospital operating within close proximity in the neighboring town of Methuen. In Brockton, Signature Healthcare Brockton Hospital is a 70% public payer DSH hospital in Brockton with a non-DSH Caritas Good Samaritan Hospital also serving the same community. And in Fall River there are two DSH hospitals, Charlton Memorial Hospital which is part of the Southcoast Hospitals Group, as well as Caritas St. Anne's Hospital, both of whom are DSH hospitals and are located within the City of Fall River.

In each of these three communities, the Coalition hospital was found by the Office of the Attorney General in their March, 2010 report to be paid less by all three major health plans (Blue Cross Blue Shield, Tufts Health Plan and Harvard Pilgrim) than the Caritas hospital in the same community, reflecting both the Coalition hospitals' lack of market leverage and DSH status. In fact, these hospitals are all paid considerably less than the statewide average, according to the Office of the Attorney General's research. In addition, declining state revenues and a significantly greater reliance on Medicaid rates have further reduced state-funded reimbursement, making it more challenging to sustain the health care access and services they provide.

The three hospitals that make up the Health Care Access Coalition are paid less than most providers in the Commonwealth by the major health plans and are more exposed to declines in Medicaid rates of payment, declines in rates paid by the Medicaid Managed Care Organizations, declines in rates payment for care to the uninsured through the Health Safety Net Fund. Each of the Coalition hospitals' exposure to Medicaid as a proportion of their payer mix exceeds 20% and in the case of Lawrence and Brockton exceeds 30% of their gross revenue. When all state-supported rates are factored in, these hospitals have significantly greater exposure to state-supported rates because of the high number of low income populations they serve, and every

one of those state-supported rates paid to these providers has been cut significantly in recent years.

Therefore the safety net hospitals that comprise the Coalition are providing services and access for the populations they serve, with considerably fewer resources than other providers in the Commonwealth and are vulnerable. When the sale and transfer of Caritas to Cerberus Capital takes place, it will have the potential to destabilize the providers, if certain consideration is not given and conditions are not placed on the transfer.

The safety net providers will not have the economic power, nor the access to capital that the private equity firm acquiring the Caritas hospitals in their market will have when this transfer of ownership takes place. More specifically, the Coalition hospitals in Lawrence, Brockton and Fall River will not have access to capital investments of \$400 million. Notably, of this \$400 million promised by Cerberus to the Caritas hospitals, to date only \$110 million has been committed to specific improvements leaving the majority of these funds to be invested in a manner that is currently undisclosed.

Given the vast numbers of low income Massachusetts residents who are currently served by these three Coalition providers in these impoverished, highly populated communities where the Coalition hospitals are not only the high value, low cost health care provider but also the largest employer, we urge the Department of Public Health, and the Public Health Council to consider appropriate ongoing monitoring of access, payer mix shifts, and service mix shifts, in order to sustain access.

Cerberus Capital Management does not have a track record in health care to examine, yet it will have enormous market clout and capital. If it is used to direct commercially insured patients and volume away from these DSH hospitals, even to a modest degree, health care in these three urban communities may be threatened because these providers rely more heavily than most on their modest commercial patient revenue. The Department of Public Health should ensure that the economic power and capital of Cerberus is not used in a manner that diminishes health care access.

We urge the Department of Public Health to require that Cerberus disclose its business plan and describe how it will sustain the six Caritas Hospitals, address existing debt and specify how its capital investment of \$400 million will be spent in the six marketplaces in which they operate. We also urge the DPH to monitor payer mix at the three Coalition hospitals, as well as at the six Caritas Hospitals, and to ensure commitment to care for low income populations is maintained.

Massachusetts' landmark health reform law has dramatically expanded coverage but it has failed to true up to cost the rates of payment Massachusetts pays for those who rely on public payments for that care. The providers who make up this Coalition are some of the largest providers of care to those covered under Health Reform. We urge you to scrutinize the impact of the Caritas sale and transfer on health access.